



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINAL MANAGEMENT REPORT

UMZIMKHULU MUNICIPALITY

30 June 2011





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FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE UMZIMKHULU MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2011

INTRODUCTION

1. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with laws and regulations for the year ended 30 June 2011 which were communicated to management and includes their response to these findings. The report also includes information on the internal control deficiencies that were identified. Addressing these deficiencies will assist in ensuring an improvement in the audit outcomes.
2. The management report consists of an executive summary and detailed audit findings which are contained in annexures A, B and C.

THE AUDITOR-GENERAL'S RESPONSIBILITIES

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), our responsibility is to express an opinion on the financial statements and to report on findings relating to our audit of the report on predetermined objectives and compliance with material matters in laws and regulations applicable to the entity. Our engagement letter sets out our responsibilities in detail. These include the following:
 - Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, the report on predetermined objectives and compliance with laws and regulations applicable to the entity. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, the report on predetermined objectives and material non-compliance with laws and regulations.
 - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements, the report on predetermined objectives and compliance with laws and regulations.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
 - Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial statements, the report on predetermined objectives and compliance with laws and regulations.
4. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or the report on predetermined objectives or compliance with all applicable laws and regulations.
5. Having formed an opinion on the financial statements, we may include additional communication in the auditor's report that does not have an effect on the auditor's opinion. These may include:
 - an emphasis of matter paragraph to draw users' attention to a matter presented or disclosed in the financial statements which is of such importance that it is fundamental to their understanding of the financial statements.

- an additional matter paragraph to draw users' attention to any matter, other than those presented or disclosed in the financial statements, that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

THE ACCOUNTING OFFICER'S RESPONSIBILITIES

6. The accounting officer's responsibilities are set out in detail in the engagement letter. These include the following:

- The preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice. (SA Standards of GRAP)
- Planning, monitoring of and reporting on performance against predetermined objectives.
- Review and monitoring of compliance with laws and regulations and disclosing known instances of non-compliance or suspected non-compliance with laws and regulations.
- Designing, implementing and maintaining proper record keeping and internal controls necessary to enable the preparation of financial statements and the report on predetermined objectives that are free from material misstatement whether due to fraud or error, and compliance with laws and regulations.
- Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
- Implementing appropriate risk management activities to ensure that regular risk assessments are conducted.
- Disclosing all matters concerning any risk, allegation or instance of fraud.
- Accounting for and disclosing related-party relationships and transactions.
- Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records and documents.

EXECUTIVE SUMMARY

SECTION 1: Meetings with oversight bodies and those charged with governance

7. During the audit cycle we met with key stakeholders to communicate matters relating to the audit outcomes of the municipality and emerging risks. Insight was provided on the key controls that impact these audit outcomes to enable corrective action to be taken.

8. Meetings were conducted as follows:

Name	Date
Municipal council	31 January 2011
	21 September 2011
Accounting authority (including Mayor)	23 September 2010
	31 January 2011
	22 March 2011
	26 August 2011
	12 October 2011
	15 November 2011
Audit committee	4 February 2011
	26 November 2010

9. At these meetings commitments were made to address improvements in the internal control environment with the objective of achieving clean administration. Progress made on these commitments is discussed later in this report.

SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT**PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS**

10. Material misstatements in the financial statements were identified during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA).

Material misstatements		Impact R	Internal control deficiency
Financial statement item	Finding		
Material misstatements not corrected			
All material misstatements were corrected.			
Material misstatements corrected			
Property, plant and equipment	Completed projects were not capitalised on the date they became available for use.	4 249 461	<u>Leadership and financial management:</u> No documented processes in technical department for communicating completed projects with finance department.
Leave pay provision	Leave pay provision was provided based only on basic salaries of employees and incorrect leave balances.	944 491	<u>Financial management:</u> Monthly leave reconciliations were not reviewed by HR manager.
Irregular expenditure	Non compliance with the supply chain management regulations when procuring goods and services	2 158 341	<u>Financial management:</u> The SCM manager, evaluation and adjudication committee did not ensure that SCM legislation is complied with when procuring goods and services.
Statutory funds/ reserves	A housing statutory fund was not created for housing funds received by the municipality as required by the Housing Act, 1997.	25 656 222	<u>Financial management:</u> Incorrect application and interpretation of the Housing Act.

PART B – MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS

EMPHASIS OF MATTER PARAGRAPH

An emphasis of matter paragraph will be included in our auditor's report to highlight the following matter to the users of the financial statements:

Restatement of corresponding figures

11. As disclosed in note 25 to the financial statements, the corresponding figures for the year ended 30 June 2010 have been restated as a result of errors discovered during 2010-11 in the financial statements of the Umzimkhulu Municipality at, and for the year ended, 30 June 2011.

ADDITIONAL MATTER PARAGRAPHS

An additional matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

Material inconsistencies in other information included in the annual report

12. I have not obtained the other information included in the annual report for my review and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

13. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

PART C – REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

FINDINGS ON THE REPORT ON PREDETERMINED OBJECTIVES

Included below are the findings raised during our audit of the report on predetermined objectives.

Usefulness of information

14. The following criterion is relevant to the findings below:
 - Consistency: Objectives, indicators and targets are consistent between planning and reporting documents

Changes, including reasons for and approval thereof, to planned targets are not disclosed in the report on predetermined objectives

15. Changes to the targets of the approved integrated development plan for the year under review, were not disclosed and explained as required in terms of the relevant National Treasury preparation guide.

Reported targets are not consistent when compared with the planned targets

16. Reported performance against predetermined targets is not consistent with the approved integrated development plan.

Reliability of information

17. The following criterion is relevant to the finding below:

- Accuracy: Amounts, numbers and other data relating to reported actual performance have been recorded and reported appropriately.

Reported performance against targets is not accurate when compared to source information

18. For the selected objectives, 80% of the reported targets were not accurate based on the source information or evidence provided.
-

FINDINGS ON COMPLIANCE WITH LAWS AND REGULATIONS

Included below are findings on material non-compliance with laws and regulations applicable to the municipality.

Annual financial statements

19. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1)(a) of the MFMA. Material misstatements of capital assets, liabilities, expenditure and disclosure items identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

20. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.
21. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as per the requirements of Municipal SCM Regulations 19(a) and 36(1).
22. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state, as per the requirements of Municipal SCM Regulation 13(c).
23. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, as per the requirements of Municipal SCM Regulations 17(a) & (c).
-

INTERNAL CONTROL

Achievement of internal control objectives

24. Significant deficiencies that resulted in the findings on the report on predetermined objectives and findings on compliance with laws and regulations are summarised below. Detailed information on significant internal control deficiencies is provided in section 4 of this report.

- Leadership

The accounting officer did not exercise oversight responsibility over procurement of goods and services to ensure that they complied with the requirements of Municipal SCM Regulations.

The municipal council did not exercise oversight over the preparation of the annual performance report to ensure that it contains the necessary disclosure and explanations required by the National Treasury preparation guide.

- Financial and performance management

The CFO did not implement effective controls to ensure that the financial statements submitted for audit were free of material misstatements.

The IDP and Planning Manager has not performed a proper review of the annual performance report to ensure that approved indicators and targets are consistently and completely recorded.

- Governance

The internal audit unit and the performance audit committee did not perform a detailed review of the reported performance against predetermined targets to ensure that it is consistent with the approved integrated development plan.

PART D – OTHER REPORTS

INVESTIGATIONS

25. Investigations in progress

Description	Reason		
	Supply chain management	Fraud	Financial misconduct
A forensic investigation into infrastructure projects will be undertaken in December 2011.	√	√	

26. Investigations completed during the financial year

Description	Reason		
	Supply chain management	Fraud	Financial misconduct
None.			

SECTION 3: SPECIFIC FOCUS AREAS

SIGNIFICANT FINDINGS FROM THE AUDIT OF PROCUREMENT AND CONTRACT MANAGEMENT

Significant findings from the audit of procurement and contract management

27. The audit included an assessment of procurement processes, contract management and controls of the municipality, which should ensure a fair, equitable, transparent, competitive and cost-effective SCM system that complies with legislation and minimises the likelihood of fraud, corruption, favouritism and unfair and irregular practices. The assessment has indicated the following deficiencies:

Irregular expenditure

28. Irregular expenditure amounting to R2, 158 million was incurred in the period as a result of the contravention of SCM legislation. All of the irregular expenditure was identified during the audit process. The incomplete identification of SCM irregular expenditure was as a result of incorrect interpretation of the SCM policy and legislation and inadequate processes to identify irregular expenditure with regards to SCM.

Awards to persons in the service of the state

29. Awards amounting to R982 642 were made to suppliers in which persons in service of the state had a business or private interest.











































Internal control deficiencies

30. The accounting officer did not exercise oversight responsibility over procurement of goods and services to ensure that they complied with the requirements of Municipal SCM Regulations. Furthermore, the municipality did not have adequate measures in place to ensure that no transactions were made with suppliers employed by the state.

SECTION 4: SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

PART A – ASSESSMENT OF THE ACHIEVEMENT OF CONTROL OBJECTIVES

31. The achievement of the objectives of internal control is demonstrated by the implementation of key controls. The assessment below is based on significant deficiencies relating to the fair presentation of the financial statements, material misstatements corrected as a result of the audit, findings on predetermined objectives and findings on non-compliance with laws and regulations. Significant deficiencies occur when internal controls either do not exist or are not appropriately designed to address the risk or are not implemented and which either had or could cause the financial statements or report on predetermined objectives to be materially misstated and material non-compliance with laws and regulations to occur. When a significant deficiency is not applicable, it is assessed with a 😊, 😐 to indicate that the deficiency still exists but significant progress had been made to address it, while 😞 indicates that urgent attention to the matter is required. Part B gives additional information on the deficiencies that should be addressed. Other deficiencies in internal control, which require the attention of management, are included in the detailed findings attached to this report.

3 Audit dimensions Fundamentals of internal control	Financial	Performance objectives	Compliance with laws and regulations
	Assessment		
Leadership			
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity			
• Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls			
• Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored			
• Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities			
• Develop and monitor the implementation of action plans to address internal control deficiencies			
• Establish an IT governance framework that supports and enables the business, delivers value and improves performance			
Financial and performance management			
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting			
• Implement controls over daily and monthly processing and reconciling of transactions			
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information			
• Review and monitor compliance with applicable laws and regulations			
• Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information			
Governance			
• Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored			
• Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively			
• Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations			

PART B – DETAILS CONCERNING THE ACHIEVEMENT OF INTERNAL CONTROL OBJECTIVES

LEADERSHIP

Oversight responsibility regarding reporting and compliance

32. The accounting officer did not exercise oversight responsibility over procurement of goods and services to ensure that they complied with the requirements of Municipal SCM Regulations

Implementation of policies and procedures

33. Management have not adequately monitored their action plans against the documented policies and procedures of the municipality, resulting in instances of non-compliance with the MFMA, SCM regulations.

Establishment of an IT governance framework

34. An information technology governance framework and controls, which provides for the structures, policies and processes through which IT supports the organisation's strategies and objectives, was not adequately implemented in the current financial year.
-

FINANCIAL AND PERFORMANCE MANAGEMENT

Controls over daily and monthly processing and reconciling of transactions

35. Management did not perform certain reconciliations and reviews to ensure that the reported financial information is accurate.

Related-party transactions

36. The accounting officer did not implement controls to ensure that transactions with state employed suppliers are not entered into.

Monitoring of compliance with laws and regulations

37. Non-compliance with MFMA SCM regulations could have been prevented had management developed and implemented a compliance checklists addressing the relevant laws and regulations and this had been properly reviewed and monitored by those responsible.

Accuracy and completeness of financial statements and report on predetermined objectives

38. The PMS Manager has not performed a proper review of the annual performance report to ensure that approved indicators are consistently and completely presented.
39. The CFO has not performed a proper review of the annual financial statements to ensure that all information presented and disclosed are complete and comply with the SA Standards of GRAP.
-

GOVERNANCE

Risk management

40. The accounting officer has not implemented controls to ensure that the risk assessment is comprehensive and covers all critical areas.

PART C – ACTIONS TAKEN TO ADDRESS MATTERS PREVIOUSLY REPORTED

Municipal council

41. The municipal council has not taken adequate steps to resolve matters relating to reporting against predetermined objectives. The council must implement systems and processes to ensure that there is alignment between the integrated development plan, the service delivery budget implementation plan, the organisational scorecard and the annual performance report.

Accounting officer

42. The accounting officer has not developed and implemented a compliance checklist addressing the relevant laws and regulations and a SCM unit, to monitor the procurement of the goods and services, to prevent irregular expenditure.

PART D – EMERGING RISKS

Accounting and compliance matters

43. National Treasury Preferential Procurement Regulations, 2011 has been issued in terms of section 5 of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No.5 of 2000). These regulations will impact on the municipality's supply chain management policies and processes and management must ensure that it updates policies and processes to include the new procurement regulations.

SECTION 5: RATINGS OF DETAILED AUDIT FINDINGS

44. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:
- Matters to be included in the auditor's report - These matters should be addressed as a matter of urgency.
 - Other important matters – These matters should be addressed to achieve clean administration.
 - Administrative matters – These matters are unlikely to affect the decisions of the users of the financial statements or performance information and should be addressed at the discretion of the entity.

SECTION 6: CONCLUSION

45. The matters communicated throughout this report relate to the three fundamentals of internal control which should be addressed to achieve sustained clean administration. The AGSA staff remain committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Sagie Reddy
Senior Manager: KwaZulu-Natal

30 November 2011

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Distribution:
Mayor
Municipal Manager
CFO
Audit committee
Head of internal audit

SECTION 8: SUMMARY OF DETAILED AUDIT FINDINGS

Page no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009-10	2008-09	2007-08
	Irregular expenditure											
19	Declaration of interest not completed for procurement between R30 000 and R200 000			√			√			√		
20	Quotations not obtained for the procurement of goods			√			√					
21	Tender process not initiated for professional services			√			√					
	Pre-determined objectives											
22	Inconsistencies between the IDP and the annual performance report			√		√	√			√		
25	Inadequate presentation of reported performance information			√		√	√			√		
30	Reported performance against targets are not valid and accurate when compared to source information		√	√		√	√					
	Non compliance with laws and regulations											
34	Inadequate documentation of tender evaluation and adjudication process			√				√				
36	Insufficient information on invoices approved for payment			√				√		√		



Page no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009-10	2008-09	2007-08
37	Fruitless and wasteful expenditure incurred			√				√				
38	Non compliance with the MFMA: publication of information on website			√				√				
39	Mid-year budget and performance assessment not submitted in required format			√				√				
39	Non compliance with the DoRA			√				√				
40	Irregular expenditure not investigated by council committee			√				√				
41	Authorised signatory not a member of senior management			√				√				
	Predetermined objectives											
42	SDBIP not approved within legislated timeframe			√		√		√				
42	Budget allocation not per development objective			√		√		√				
43	Performance indicators not included in the SDBIP			√		√		√				
44	Public notice of the adoption of the IDP not submitted for audit			√		√		√				
45	No evidence of community participation in setting of KPIs			√		√		√				
46	Targets not specific, measurable and time-bound			√		√		√		√		

Page no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009-10	2008-09	2007-08
47	Predetermined objectives of other institutions included in IDP			√		√		√		√		
	Internal control weaknesses											
49	Inadequate controls over the suppliers' database				√			√				
51	Inadequate controls over master file amendments				√			√				
52	Leave reconciliation not reviewed				√			√		√		
53	Policy on investment property depreciation				√			√				
53	Risk assessment				√			√				
54	Anti-virus software				√			√				
55	Control environment over financial reporting and journals				√			√		√		
57	Bank reconciliations not signed as evidence of review				√			√		√		
58	Input VAT incorrectly claimed				√			√		√		
59	No gifts register in place				√			√				
59	Lack of performance management system and process for all levels of staff				√			√				
60	Commitments incorrectly disclosed	√						√		√		
61	Difference between bank confirmation and AFS	√						√		√		

DETAILED AUDIT FINDINGS

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Irregular expenditure

1. Transactions with suppliers who are employed by the state

Audit finding

According to paragraph 14.1(c) of the municipality's SCM policy, a written quotation or bid may not be considered unless the provider who submitted the quotation or bid has indicated:

- (i) whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months;
- (ii) if the provider is not a natural person, whether any of its managers, its managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months; or whether a spouse, child or parent of the provider or of a manager, shareholder or stakeholder referred to in sub-paragraph;
- (iii) is in the service of the state, or has been in the service of the state in the previous twelve months.

There were no declarations of whether or not the supplier was in the service of the state in respect of written quotations from R30 000- R200 000 resulting in irregular expenditure of R982 641 being incurred. Consequently irregular expenditure is not completely disclosed in the financial statements.

The following are the suppliers in the service of the stated who transacted with the municipality:

Supplier	Payment R
DIDIMO TRADING	1 750.00
NOMAHOMBA TRADING ENTERPRISE	43 030.00
SAVELA COACHES	46 700.00
SINO CIVIL ENGINEERING	64 250.00
KGOTLA TRAINING & DEVELOPMENT	94 620.00
ILA CIVILS CONSTRUCTION AND PL	467 102.58
NET CATERING & PROJECTS	3 500.00
LUNQOBILE TRADING & PROJECTS	189 200.50
MVUNDLA TRADING	1 200.00
SITHUTHUKASONKE TRANSPORT & PR	2 040.00
SODIZA TRADING	57 248.50
MZWABONI TRADING	12 000.00

Supplier	Payment R
Total	982 641.58

Internal control deficiency

The municipality has not developed a compliance checklist that will be applied as a tool to ensure that full compliance with the SCM policy is achieved.

The quotation form is also not designed to facilitate compliance with the declaration of employment in the service of the state as the form does not require suppliers to complete such information.

Recommendation

The SCM manager should design and implement a compliance checklist for the SCM policy which will be used as a tool to monitor full compliance with the SCM policy of the municipality. Declarations of interest should be mandatory for suppliers who submit quotations with the municipality as required by SCM regulations.

The above-mentioned expenditure must be disclosed as irregular in the financial statements.

Management response

This matter will be investigated.

Name: Z. Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

This matter will be included in the audit report.

2. Quotations not obtained for procurement of goods and services**Audit finding**

According to paragraph 19.1(a) of the supply chain management policy all requirements in excess of R30 000 (VAT included) that are to be procured by means of formal written price quotations, in addition to the requirements of paragraph 18 be evaluated in terms of the Preferential Procurement Points Framework Act (PPPFA) and its Regulations and be advertised for at least seven days on the website and an official notice board of the Umzimkhulu Municipality.

Three quotations for the procurement of goods from the following supplier were not sourced by the municipality resulting in irregular expenditure. There was no approved deviation for the expenditure incurred and the irregular expenditure is not disclosed in the financial statements:

Date	Details	Contractor	Amount R
20101110	ENTERTAINMENT	BOXER SUPER STORES	368 960
Total			368 960

Internal control deficiency

The relevant HOD approved orders for goods and services which were not accompanied by three quotations as required by the municipality's policy.

Deviations from the SCM policy were not approved when goods were acquired without sourcing three quotations as required by the SCM policy of the municipality.

Recommendation

Orders should only be approved by HODs after inspection of three quotations or a approved deviations where there are no quotations.

The identified irregular expenditure should be disclosed in the financial statements.

Management response

Contractor	Reasons
BOXER SUPER STORES	Is the only supermarket in Umzimkhulu that deals with the municipality

Name: Z. Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

An approved deviation from the SCM policy was not made. This matter will be included in the audit report.

3. Tender process not initiated and followed for services rendered**Audit finding**

According to section 20.1 of the SCM policy, goods or services above a transaction value of R 200 000 (VAT included) and long term contracts may only be procured through a competitive bidding process, subject to paragraph 12(2) of the policy.

No evidence of a competitive bidding process was provided for financial services received from KPMG resulting in irregular expenditure amounting to R806 739 which is not disclosed in the financial statements of the municipality.

Internal control deficiency

The CFO did not initiate a competitive bidding process for the acquisition of professional services to ensure compliance with the requirements of the SCM policy of the municipality.

Recommendation

All procurements above R200 000 should be made through a competitive bidding process as required by the SCM policy of the municipality.

The expenditure should be disclosed as irregular in the financial statements of the municipality.

Management response

Competitive bidding process was followed in 2009. Thereafter, extensions to the original contract were made. This will be disclosed as irregular in the financial statements.

Name: Z. Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

This matter will be included in the audit report.

Predetermined objectives**4. Inconsistencies between the IDP & APR****Audit finding**

According to section 62(b) and (c)(i) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards and that the municipality has and maintains effective, efficient and transparent system of financial and risk management and internal control".

The following inconsistencies in performance indicators and targets were noted between the Integrated Development Plan (IDP) and the Annual performance Report (APR).

KPA	Development priorities/objective	Predetermined objectives	Performance measure/indicator IDP	Performance measure/indicator APR	Target APR	Target IDP
Institutional Development & Transformation	To provide effective and efficient human resources management services	Budget Spent on Workplace Skills Plan	Percentage Spent	Same as IDP	100 %	1%
Institutional Development & Transformation	To ensure effective administrative support services	Proper utilisation and maintenance of municipal buildings	Number of buildings maintained	Same as IDP	5	20
Basic Service Delivery And Infrastructure	To construct new community and public facilities and maintaining existing structures	New facilities provided	Number of facilities	Same as IDP	3	2
Basic Service Delivery And Infrastructure	To reduce the number of individuals living in informal settlements	New houses constructed	Number of houses	Same as IDP	0	500

KPA	Development priorities/objective	Predetermined objectives	Performance measure/indicator IDP	Performance measure/indicator APR	Target APR	Target IDP
Local Economic Development	To stimulate economic growth	Jobs created through the municipality's Capital Projects	Number of jobs	Same as IDP	100	140
Local Economic Development	To enhance tourism development	Tourism Strategy	Yes/No	Same as IDP	N/A	Yes
Local Economic Development	To facilitate and co-ordinate agricultural development	Implementation of the Agricultural Development Strategy.	% achieved against milestones	Same as IDP	40%	40
Good Governance	To ensure alignment between national, provincial, local government and public entities	IDP Representative Forum	Number of meetings	Same as IDP	1	2
Good Governance	To ensure alignment between national, provincial, local government and public entities	District Cluster Forum	Number of meetings	Same as IDP	12	6
Good Governance	To ensure functional internal audit activity and audit committee	Internal audit activity	% achievement of annual internal audit plan	Internal audit reports	4	100 %
Good Governance	To ensure functional internal audit activity and audit committee	Risk assessments	Approved risk profile	Left blank	31-Jan	31-Dec
Community & Social Services	To manage health issues	HIV/AIDS Strategy	Number of individuals infected and affected	Same as IDP	100 %	Left blank
Community & Social	To manage health issues	HIV/Aids programme	Number of programmes	Same as IDP	17	Left blank

KPA	Development priorities/objective	Predetermined objectives	Performance measure/indicator IDP	Performance measure/indicator APR	Target APR	Target IDP
Services		es				
Community & Social Services	To contribute towards a safe and secure environment	Community Safety Forum	No of meetings	Same as IDP	4	Left blank
Community & Social Services	To contribute towards a safe and secure environment	Crime Prevention Strategy	% reduction in specified crime categories	Same as IDP	100 %	Left blank
Community & Social Services	To ensure all communities have access to basic community facilities and social services	Promotion of the library Services	Number of initiatives	Same as IDP	14	18

The following predetermined objectives were reported on the APR but were not included on the IDP:

KPA	Development priorities/objectives	Predetermined objectives	Performance measure/indicator APR	Target
Good Governance	To implement public participation programmes	Develop and Implement a Calendar of Events	Date Developed	1-Jul
			% Achieved	100%

Internal control deficiency

The IDP and Planning Manager did not ensure that all amendments to the IDP are duly approved by the Mayor as required by the municipality's policy.

The performance audit committee and the internal audit unit did not perform a detailed review of the reported performance against predetermined targets to ensure that it is consistent with the approved integrated development plan.

Recommendation

The IDP and Planning Manager must ensure that all amendments to the IDP are approved as required by the policy.

The performance audit committee and internal audit unit must perform a detailed review of reported performance against predetermined objectives to ensure consistency with the integrated development plan.

Management response

The municipality is currently reviewing its planning and budgeting model to integrate and align the IDP and budget through incorporation of the budget into the SDBIP/Operational plan and making these one manageable document. Any requested amendments shall be effected upon written prior written motivation and approval by the Mayor, and a procedure will be enacted where amendments are allowed only in the first quarter of the financial year.



Name: Z Cezu
 Position: Chief Financial Officer
 Date: 04 November 2011

Auditor's conclusion

This matter will be included in the audit report.

5. Inadequate presentation of reported performance information

Audit finding

Section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) states that "the municipality must prepare for each financial year a performance report reflecting measures taken to improve performance.

As reported in the prior year, the municipality included a column titled planned measures for improvement in its annual performance report. However, this column only included reason for targets not met and did not reflect the measure's put in place by the municipality to improve performance.

Development priorities/ Objectives	Predetermined objectives	Performance measure/ indicator	Target	Actual performance achieved	Planned measure for improvement
Basic Service Delivery and Infrastructure					
To provide access to water, sanitation, electricity, solid waste, roads	Kilometres of tarred roads established	Number of km	3	2	End of the financial year
	Kilometres of roads maintained	Number of km	40	38.9	Not fully achieved
To construct new community and public facilities and maintaining existing structures	Upgraded facilities provided	Number of facilities	8	6	Not fully achieved

Development priorities/ Objectives	Predetermined objectives	Performance measure/ indicator	Target	Actual performance achieved	Planned measure for improvement
To reduce the number of individuals living in informal settlements	New houses constructed	Number of houses	0	0	Not fully achieved
Municipal Transformation and Institutional Development					
To provide effective and efficient human resources management services	Approved organogram	Date	30-Jun	30-Jun	Not achieved
	Levels of black staff employed in management	Number of black staff	0	0	Not applicable
	Women employed by the municipality	Number of women	0	0	Not applicable
	Youth employed by the municipality	Number of youth	0	0	Not applicable
	Disabled staff employed by the municipality	Number of staff	2	1	Not fully achieved
	Annual Approved Workplace Skills Plan	Date	30-Jun	-	Not achieved
	Budget Spent on Workplace Skills Plan	Percentage Spent	100%	0.75	Not fully achieved
To contribute meaningfully to the wellness of employees	EAP Programmes	Impact report	12	3	Not Achieved
To conform to the batho pele principles	Surveys conducted	Number of surveys	2	0	Not achieved

Development priorities/ Objectives	Predetermined objectives	Performance measure/ indicator	Target	Actual performance achieved	Planned measure for improvement
To ensure integrated development and environmental planning	Spatial Development Framework	Date of approval	31-May	n/a	Not applicable as the SDF is reviewed and approved on the first quarter of each financial year, the current SDF was approved in September 2010.
	Approved Mid-Term Expenditure Framework	Yes/No	Yes	-	N/A
	Environmental Management Plan	Date	31-May	-	Not achieved
	Establishment of the Development Planning Shared Services	Appointment of staff	31-Dec	0	Not achieved as the DPSS Shared service was only appointed in June 2011.
	Land Use Management Systems	Date approved	31-Mar	-	Not achieved
To provide effective information communication technology solutions	Communication Strategy	Yes/No	Yes	No	Not achieved
	Municipal Newsletter	Quarterly	4	1	Not achieved
	Implement a marketing strategy	% achieved	100%	0	Not achieved
	IT Strategy (MSP)	Yes/No	Yes	No	Not achieved

Development priorities/ Objectives	Predetermined objectives	Performance measure/ indicator	Target	Actual performance achieved	Planned measure for improvement
Local Economic Development					
To stimulate economic growth	Jobs created through the municipality's LED initiatives	Number of jobs	100	85	Not fully achieved
To enhance tourism development	Tourism Strategy	Yes/No	N/A	N/A	N/A
To provide support to local business and emerging black entrepreneurs	Capacity building initiatives	Number of initiatives	10	8	Not fully achieved
To provide support to local business and emerging black entrepreneurs	Capacity building initiatives	Number of initiatives	10	8	Not fully achieved
Good governance					
To implement public participation programmes	Develop and Implement a Calendar of Events	Date Developed	1-Jul	-	Not fully achieved
	Community Outreach Programmes	Number of awareness campaigns	12	-	Not fully achieved
	Ward Committee Systems	Number of meetings per Ward	216	-	Not achieved
To ensure alignment between national, provincial, local government and public entities	District Cluster Forum	Number of meetings	12	6	Not achieved
	Mayoral Stakeholders Forum	Number of meetings	12	6	Not fully achieved
To ensure functional internal audit	Internal audit activity	Internal audit reports	4	1	Not achieved

Development priorities/ Objectives	Predetermined objectives	Performance measure/ indicator	Target	Actual performance achieved	Planned measure for improvement
activity and audit committee					
	Audit Committee	Yes/No - Quarterly Meetings	4	3	Not fully achieved
	Audit Committee	Report to council	4	2	Not fully achieved
	Performance audit committee	Yes/No - Quarterly Meetings	4	3	Not fully achieved
To implement an effective anti-corruption strategy	Anti Corruption Strategy/Fraud Prevention Plan	Yes/No	Yes	No	Not fully achieved
Financial Viability & Management					
To ensure that all expenditure is managed in terms of all financial legislation	Compliance with GRAP	% compliance	100%	98%	Not fully achieved
To ensure compliance with all supply chain management regulations, policies, pppfa, bbbbe requirements	Procurement Planning	Date	Jun	-	Not achieved

Internal control deficiency

The evaluation and monitoring manager has not performed adequate reviews of the annual performance report to ensure that it includes measures taken to improvement performance where planned targets were not achieved by the respective departments as required by the MSA.

The performance audit committee and the internal audit unit did not perform a detailed review of the reported performance against predetermined targets to ensure that measures to address non-performance are included in the report.

Recommendation

The evaluation and monitoring manager must review the annual performance report and ensure that measures taken to improve performance are included in all cases where planned targets were not achieved.

The performance audit committee and the internal audit unit must perform a detailed review of the reported performance against predetermined targets to ensure that measures to address non-performance are included in the report.

Management response

The municipality has recently prepared a manual for management of performance information for the 2011/12 financial year and going forward. The manual stipulates and guides the various activities that ought to be undertaken in preparation for reliable and accountable reporting of performance information. The manual also emphasizes on the provision of reasons for not meeting set targets as well as remedial action and timeframes to correct such. This situation will drastically improve the current year and the financial years going forward.

Name: Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

This matter will be included in the audit report.

6. Reported performance against targets are not valid and accurate when compared to source information

Audit finding

Section 62(1) (b) of the MFMA states, the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

The selected objectives of the reported targets were not valid and accurate based on the source information or evidence provided.

N o.	Measurable Objective	Performance indicator	Actual performance reported	Evidence obtained
Basic service delivery and management				
1	New households with access to weekly waste disposal services	Number of new households	Not reported on in the APR	No evidence

N o.	Measurable Objective	Performance indicator	Actual performance reported	Evidence obtained
2	Delivery of a quality waste removal service	% Achieved	100%	Inspected register of complaints from the community but it does not state action taken by the municipality to resolve the matter. It also does not state when the matter was resolved.
3	Kilometers of tarred roads established	Number of km	2	Inspected Proof of payments to contractors & progress certificates only 1.9km was confirmed
4	Kilometers of gravel roads established	Number of km	38.6	Inspected Proof of payments to contractors & progress certificates only 36.7km was confirmed
5	Kilometers of roads maintained	Number of km	38.9	Inspected Proof of payments to contractors & progress certificates only 28.6km was confirmed
6	New facilities provided	Number of facilities	3	Inspected Proof of payments to contractors & progress certificates only 1 facility was confirmed

N o.	Measurable Objective	Performance indicator	Actual performance reported	Evidence obtained
	Local Economic development			
	Jobs created through the municipality's capital projects	Number of jobs	142	List attached to contractors confirmed only 67.
7	Targeted spend achieved	% achieved against BBBEE targets	30%	Inspected the attendance register for BBE compliance awareness meeting but 30 % achieved was not supported by evidence
	Financial viability & management			
8	Cash collected from customers	Number of days outstanding	60 days	Age analysis shows lots of debtors on 90 and 120 days
9	Outstanding service debtors to revenue	%	57%	Actual performance was not supported by evidence
10	To increase revenue collection	% increase	50%	Statement of performance for the period was inspected 50% could not be verified.
11	Fixed asset register reconciled with general ledger	% reconciled	100%	There is no evidence that the FAR reconciles 100% to the GL and based on audit findings issued a substantial number of categories of asset register items did not reconcile to

N o.	Measurable Objective	Performance indicator	Actual performance reported	Evidence obtained
				the GL.
12	Compliance with GRAP	% compliance	100%	No evidence to support 100% compliance and based on the findings issued thus far on the annual financial statements the municipality did not comply 100% with GRAP

Internal control deficiency

The IDP and Planning Manager did not review and reconcile reported performance information to source.

The internal audit unit did not perform a detailed review of the reported performance against source documentation and supporting schedules to verify the credibility of the information reported.

Recommendation

The IDP and Planning Manager must review and reconcile reported performance to source documentation and evidence to ensure accuracy and validity of the reported information.

The internal audit unit must perform a detailed review of reported performance against source documentation and supporting schedules to verify the credibility of the information reported.

Management response

The municipality has recently prepared a manual for management of performance information for the 2011/12 financial year and going forward. The manual stipulates and guides the various activities that ought to be undertaken in preparation for reliable and accountable reporting of performance information. The manual also emphasizes on the provision of reasons for not meeting set targets as well as remedial action and timeframes to correct such. This situation will drastically improve the current year and the financial years going forward.

Name: Mr Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

This matter will be included in the audit report.

ANNEXURE B: OTHER IMPORTANT MATTERS**Non compliance with laws and regulations****7. Inadequate documentation of the tender evaluation and adjudication process****Audit finding**

According to section 62(1)(d) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that irregular or fruitless and wasteful expenditure is prevented.

Furthermore, section 125(2)(d) of the MFMA states that the notes to the annual financial statements of a municipality must disclose the following information: particulars of—

(i) any material losses and any material irregular or fruitless and wasteful expenditures, including in the case of a municipality, any material unauthorised expenditure, that occurred during the financial year, and whether these are recoverable;

(ii) any criminal or disciplinary steps taken as a result of such losses or such unauthorised, irregular or fruitless and wasteful expenditures.

(a) The following irregular expenditure reported by internal audit (April 2011) during the year has not been disclosed as such in the financial statements resulting in the understatement of irregular expenditure disclosed:

'In terms of Supply Chain management, a guide for accounting officer/authorities paragraph 5.9.5.5, a contract may only be awarded to the bidder who scored the highest number of points, unless objective criteria justify the award to another bidder. Should this be the case the accounting officer/authority should be able to defend the decision not to award the bid to the bidder who scored the highest number of points in any court of law.'

"Our review of bid evaluation reports as well as minutes of the evaluation committee meeting dated 17 of December 2010, revealed that the highest scorer was not awarded the tender. The following table below serves as examples":

Sequence of evaluation	Bid under consideration	Amount R	Highest Scorer	Reason for not Awarding	Awarded to
First	Deep-dale Access Road	4 364 675	Velvet Mountain Trading 9	Awarded Maduna	Amobombo Trading
Second	Maduna Access Road	2 382 270	Mchumane Projects	Awarded Lukhanyeni	Velvet Mountain Trading 9
Third	Lukhanyeni Access Road	3 904 367	Velvet Mountain Trading 9	Awarded Maduna	Mchumane Projects
Total		10 651 312			

The SCM policy of the municipality does not prescribe for the process of fair distribution of municipality resources.

(b) The following quotations were not awarded to the highest scoring bidder resulting in irregular expenditure of at least R491 663 which is not disclosed in the financial statements of the municipality.

Project	Awarded to	Date awarded	Bidder with highest points	Reason for not awarding
Dressini access road	Gweba indlala co – operative Quote: R185 115	04-Nov-10	Manancane Construction Quote: R174 086	Below estimate
Nyanisweni access road	Sigwili construction Quote: R184 902	04-Nov-10	Sir- Ndlovu Trading Quote: R159 747	Below estimate
Ibisi community Hall	Ingxowa yabafazi Quote: R184 778	04-Nov-10	Kamanga Trading Quote: R157 830	Below estimate
Total	R491 663			

Internal control deficiency

The tender adjudication committee did not comply with the SCM policy and legislation as required by the SCM policy.

The accounting officer did not ensure that the irregular expenditure is disclosed in the financial statements as required by the MFMA.

Recommendation

The tender adjudication committee should award tenders to the highest scoring bidders as required by the SCM policy and legislation.

All payments made in respect of the above-mentioned tenders should be disclosed as irregular in the financial statements of the municipality as required by the MFMA.

Management response

(a) Paragraph 50 "Appointment of Service Providers" of the SCM policy prescribes the fair distribution of municipality's resources in order to achieve the Preference Goals set by the municipality.

"The municipality will may not appoint one services provider for two projects at the same time, because of the fair distribution of jobs to service providers.

The municipality will do that as to fully achieve the Preferential goals set in the Procurement Plan."

(b) Paragraph 50 "Appointment of Service Providers" of the SCM policy prescribes the fair distribution of municipality's resources in order to achieve the Preference Goals set by the municipality.

Name: Z. Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

The SCM policy submitted for audit did not contain paragraph 50 quoted above, however, we have inspected the 2011 policy for this paragraph.

The evaluation and adjudication committee must always appropriately record the reasons for not awarding tenders to the highest bidders in the evaluation and adjudication reports.

Controls over evaluation and adjudication reports will be followed up during next year's audit.

8. Insufficient information on invoices approved for payment**Audit finding**

The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the Municipal Finance Management Act.

Certain information was not included on the following invoices/ payments approved for payment, payments could be made for goods and services not received/ rendered:

Project Name	Payee	Invoice Number	Date of invoice	Amount R	Payment Certificate	Information Not reflected on Certificate
Landscaping and Park Development (CBD)	Thiyane Contractors cc	00445	November 10, 2010	500 000	02	Signature of engineer
						Percentage of work done
						Description of work performed
Landscaping and Park Development (CBD)	Thiyane Contractors cc	00449	November 30, 2010	600 813	03	Signature of engineer
						Percentage of work done
						Description of work performed
Landscaping and Park Development (CBD)	Mass Growers	0001	December 14, 2010	241 881	04	Description of work performed
Total				1 342 694		

Internal control deficiency

Payments were authorised without inspecting the invoices to ensure that the description of work performed as well as the percentage of completion was included therein.

Recommendation

Payments must only be processed upon inspection that the invoice explicitly specifies what goods and services were delivered to the municipality.



Management response

For High Mast, the project was a turn-key project, and all invoices were signed by Planning and Housing HOD.

For Landscaping and Park Development, the bill of quantities has the description of work done and percentage of work done for every invoice paid.

Name: Z. Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

Controls over expenditure will be followed up during next year's audit.

9. Fruitless and wasteful expenditure**Audit finding**

In terms of the MFMA section 95 (d) "The accounting officer of a municipal entity is responsible for managing the financial administration of the entity, and must take reasonable steps to ensure that irregular and fruitless and wasteful expenditure and other losses are prevented.

Furthermore, according to section 125(2)(d) of the MFMA, the notes to the annual financial statements of a municipality must disclose the following information particulars of—

(i) any material losses and any material irregular or fruitless and wasteful expenditures, including in the case of a municipality, any material unauthorised expenditure, that occurred during the financial year, and whether these are recoverable.

Interest and penalty on late payments and late submissions to the Department of Labour for workmen's compensation was incurred from the period November 2006 to March 2011 amounting to R408 496, this amount was not disclosed as fruitless and wasteful in the financial statements of the municipality.

Internal control deficiency

The chief financial officer did not exercise adequate monitoring controls to ensure that submissions and payments to the department of labour are made in time in order to avoid penalties charged on late payments.

Recommendation

The chief financial officer should ensure that submissions and payments to creditors are performed on time and disclose fruitless and wasteful expenditure relating to current year and prior years.

Management response

We agree with the finding and the necessary adjustment will be made. Going forward, we will ensure that such documents are updated on a monthly basis now that the Corporate services manager will be appointed.

Name: Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

Controls over fruitless and wasteful expenditure will be followed up during next year's audit.



10. Non compliance with the MFMA: publication of information on website

Audit finding

In terms of Section 75(1) of the MFMA, municipalities are required to place the following documents on their municipal websites:

- a) The annual and adjustments budgets and all budget-related documents;
- b) All budget-related policies
- c) Annual Report;
- d) All performance agreements required in terms of section 57(1)(b) of the Municipal Systems Act;
- e) All service delivery agreements;
- f) All long-term borrowing contracts;
- g) All supply chain management contracts above a prescribed value;
- h) An information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14(2) or (4) during the previous quarter;
- i) Contracts to which subsection (1) of section 33 apply, subject to subsection (3) of that section;
- j) Public-private partnership agreements referred to in section 120;
- k) All quarterly reports tabled in the council in terms of section 52(d); and
- l) Any other documents that must be placed on the website in terms of this Act or any other applicable legislation, or as may be prescribed.

Section 75(2) of the Act further requires that documents must be placed on the website not later than five working days after its tabling in council, or on the date on which it must be made public, whichever occurs first.

The municipality did not place updated copies of the required documents on its website within the legislated timeframe.

Certain links on the website of the municipality are not in working order. Specifically the property register.

Internal control deficiency

The accounting officer did not ensure that the municipality has proper processes in place to ensure and monitor compliance with the MFMA in relation to the administration of its website.

Recommendation

Proper processes and procedures for the maintenance and updating of the municipality's website should be developed, implemented and monitored to ensure that the municipality's website complies with the MFMA.

Management response

We disagree with the finding.

The information in our website is updated and is in line with section 75, we ensure that our website is reviewed from time to time.

Name: Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

Evidence to support management representations was not submitted for audit.

Compliance will be followed up during next year's audit.

11. Mid-year budget and performance assessment not submitted in required format

Audit finding

According to section 72(b)(iii) of the MFMA, the accounting officer of a municipality must by 25 January of each year submit a report on the mid-year assessment to the relevant provincial treasury.

The municipality did not submit its mid-year budget and performance assessment to provincial treasury in the required schedule C format.

Internal control deficiency

The accounting officer did not ensure that monitoring controls over compliance with the MFMA were operating effectively.

Recommendation

The CFO and accounting officer should review reports submitted to the province to ensure that they are in the format required by the MFMA.

Management response

We do not agree with the finding

We submitted the Mid-year Budget and performance assessment to Treasury in schedule C format, and we have attached it.

Name: Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

Confirmation from Treasury to support management representations, has not been provided for audit. This matter will be followed up during next year's audit.

12. Non compliance with the Division of Revenue Act (DoRA)

Audit finding

A municipality is required to prepare reconciliations between amounts received as per the primary bank account statements and those that should have been received according to the following sections:

- Sec 5(1) - equitable share according to Schedule 3 ;
- Sec 8(1) - other allocations according to schedules 4, 6 and 7;
- Sec 29 - funds to be transferred to PE for the provision of a municipal service; and
- Sec 36(1), sec 37(1)(b) and sec 41 - any other allocation.

Adjusted by

- * Sec 22(2) – adjustment budget or re-allocation;
- * Sec 25 - withholding of a transfer;
- * Sec 26 - stopping of allocation;
- * Sec 27 - reallocation of allocation after stopping of allocation;
- * Sec 28 – unspent conditional allocations;
- * Sec 29 – funds to be transferred to PE for the provision of a municipal service;
- * Sec 34 - amendment of payment schedules; and

* Sec 35 – transfers made in error.

The municipality did not prepare the required reconciliation.

Internal control deficiency

The CFO did not ensure that a reconciliation of DoRA funds was prepared as required by the Act.

Recommendation

The CFO should monitor compliance with the DoRA by identifying all the pertinent sections and developing a checklist against which compliance will be monitored.

Management response

The reconciliation between Dora amounts budgeted and amounts received is prepared on a monthly basis. Kindly find evidence of workings attached.

Name: Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

Reconciliations were not provided for audit. This will be followed up during next year's audit.

13. Irregular expenditure not investigated by council committee

Audit finding

Section 32(2)(b) of the MFMA states that municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure in the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council. Prior year irregular expenditure amounting to R3 085 779 has not been investigated by a council committee as required by the MFMA.

Internal control deficiency

Council has not designed and implemented processes for the investigation of irregular expenditure.

Council does not maintain a register of identified irregular and fruitless and wasteful expenditure

Recommendation

Council should design and implement the necessary processes for dealing with irregular expenditure to ensure compliance with the MFMA.

A register of identified irregular and fruitless and wasteful expenditure should be kept and used as a tool to update and monitor progress made in respect of identified irregular expenditure.

Management response

Council and oversight committee did investigate the prior year's irregular and fruitless and wasteful expenditure and action plans were developed and done to correct the irregular expenditure.

The auditors had a different Evaluation Report, whereas the municipality had another Evaluation Report which was the one used by the Evaluation and Adjudication Committee, to correct that

all Evaluation Reports are submitted electronically by consultants and one report is kept by both municipality and consultant.

Name: Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

Evidence that this was investigated by council was not provided for audit. This matter will be followed up during next year's audit.

14. Authorised signatory not a member of senior management

Audit finding

According to section 11(1) of the MFMA, only the accounting officer or the chief financial officer of a municipality, or any other senior financial official of the municipality acting on the written authority of the accounting officer, may withdraw money or authorise the withdrawal of money from any of the municipality's bank accounts

Ms.MN. Sibutha, a Senior Expenditure Accountant reporting to the Head of Expenditure, is an authorized signatory of the municipality's bank accounts, contrary to the provisions of the MFMA.

Internal control deficiency

The accounting officer did not ensure that the authorized signatories of the municipal bank accounts are members of senior management as required by the Act.

Recommendation

The accounting officer must ensure that only officials stipulated in section 11(1) of the MFMA are appointed as signatories of municipal bank accounts.

Management response

Ms H.N Sibutha was granted authority by the Accounting Officer, at that time she was the only available senior official. We never experienced any problems with her being one of the signatories. This assisted us mostly when the other signatories Municipal Manager and Chief Financial Officer were not in the office; she verifies the payments prior authorization on the bank and also assists in other queries related to the bank. This matter will be rectified going forward.

Name: Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

To be followed up during next year's audit.

Predetermined objectives

15. SDBIP not approved within legislated timeframe

Audit finding

In terms of the Municipal Finance Management Act (No.56 of 2003) section 53 (1) (c) (ii) The mayor of a municipality must take all reasonable steps to ensure that the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget;

Evidence that the service delivery and budget (SDBIP) implementation was approved by the mayor within 28 days after approval of budget was not presented.

Internal control deficiency

The mayor did not take reasonable steps to ensure that the SDBIP is approved within the legislated period in order to comply with the MFMA.

The compliance checklist was not used to monitor compliance with the MFMA.

Recommendation

The SDBIP of the municipality must always be approved within 28 days after the approval of the budget as required by the MFMA.

The MFMA compliance checklist must be used by the mayor to facilitate in complying with the MFMA.

Management response

Disagree with the finding, SDBIP was approved by Mayor and the approval letter will be submitted.

Name: Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

Evidence to support management representations was not submitted for audit. This matter will therefore be included in the audit report.

16. Budget allocation not per development priority/objective

Audit finding

Section 25 of the Municipal Systems Act No.32 of 2000 (MSA) states that each municipal council must, within a prescribed period after the start of its elected term, adopt a single, inclusive and strategic plan for the development of the municipality which:

- (a) links, integrates and co-ordinates plans and takes into account proposals for the development of the municipality;
- (b) aligns the resources and capacity of the municipality with the implementation of the plan;
- (c) forms the policy framework and general basis on which annual budgets must be based;
- (d) complies with the provisions of this Chapter; and

(e) is compatible with national and provincial development plans and planning requirements binding on the municipality in terms of legislation

The budget allocation of the municipality for the 2010/11 financial year is not allocated per development priority/objective.

Internal control deficiency

The accounting officer did not implement proper monitoring processes for the drafting of the budget of the municipality which will ensure compliance with the requirements of the municipal systems act.

Recommendation

The CFO should ensure that resource allocation in the budget is per development priority/objective as required by the MSA.

Compliance checklists should be prepared and utilized by the CFO and accounting officer to monitor compliance with the MSA.

Management response

In the 2010/11 and 2011/12 financial years the municipality used the incremental method to prepare the annual budget. The process has begun to migrate into an activity-based or zero-based planning and budgeting method for the 2012/13. The zero-based budgeting method requires alignment between annual priorities, strategic objectives, strategies and projects to be rolled, all in the quest of complying with section 25 of the Municipal Systems Act. This budgeting method will also assist the municipality with integrating the SDBIP and operational plan to be one document thereby directly aligning the strategies of the municipality to the annual budget and approved IDP. The entire budget for the 2012/13 financial year will be directly aligned to the annual development priorities and strategies of the Umzimkhulu municipality

Name: Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

This will be followed up during next year's audit.

17. Performance indicators not included in the SDBIP

Audit finding

Section 1(a) of the Municipal Finance Management Act No.56 of 2003 states the Service delivery implementation plan of the municipality must indicate service delivery targets and performance indicators for each quarter.

However, it was noted that the 2010/2011 service delivery budget implementation plan does not include all indicators and targets per the approved IDP

Internal control deficiency

The accounting officer has not reviewed the SDBIP to ensure alignment between the IDP, SDBIP and the organisational scorecard.

Recommendation

The accounting officer must review the IDP, SDBIP and the organisational scorecard to ensure that objectives, indicators and targets are consistently presented.

A compliance checklist to monitor compliance with the applicable legislation in respect of performance, planning, monitoring and reporting should be drafted and implemented.

Management response

The municipality is currently reviewing its planning and budgeting model to integrate and align the IDP and budget through incorporation of the budget into the SDBIP/Operational plan and making these one manageable document. Any requested amendments shall be effected upon written prior written motivation and approval by the Mayor, and a procedure will be enacted where amendments are allowed only in the first quarter of the financial year.

Name: Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

To be followed up during next year's audit.

18. Public notice of adoption of IDP not submitted for audit**Audit finding**

In terms of the MSA, S25 (4) (a), a municipality must; within 14 days of the adoption of its integrated development plan in terms of subsection (1) or (3):

(a) give notice to the public:

- of the adoption of the plan
- and that copies or extracts from the plan are available for public inspection at specified places;

Section 62(1) (b) of the MFMA states, the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

No evidence was provided for the public notice of adoption of Integrated Development Plan (IDP) within 14 days of 24 June 2010(date of adoption of IDP).

Internal control deficiency

The accounting officer did not ensure that the public notice of the adoption of the 2011/2012 IDP was made within 14 days of its adoption.

Recommendation

The accounting officer must ensure that the requirements of S25 of MSA are adhered to and that public notification is made within 14 days of adoption of IDP.

A compliance checklist should be developed and used by the accounting officer to monitor compliance with the MSA.

Management response

Agree with the finding. A checklist will be developed to monitor the IDP process and ensure compliance with section 25 of the Municipal Systems Act. The checklist will be signed-off by the IDP/PMS Manager and will be filed for reference and audit purposes.

Name: Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

To be followed up during next year's audit.

19. No evidence of community participation in setting of key performance indicators (KPI's)**Audit finding**

In terms of section 42 of MSA, a municipality through appropriate mechanisms, processes and procedures established in terms of chapter 4, must involve the local community in the development, implementation and review of the municipality's performance systems, and, in particular, allow the community to participate in the setting of appropriate key performance indicators and performance targets for the municipality.

Evidence that the community participated in the process of drafting the Integrated Development Plan, setting KPI's and targets was not provided.

Internal control deficiency

The accounting officer did not ensure that the public was involved in the process of setting KPI's as required by the MSA.

The accounting officer did not implement monitoring controls to monitor and ensure compliance with the MSA.

Recommendation

The municipal manager should ensure that the public participates in the process of setting KPIs. A compliance checklist should be developed and used by the accounting officer to monitor compliance with the MSA.

Management response

The municipality will ensure that the SDBIP/Operational plan (which contains the KPIs and targets) for 2012/13 is presented to the IDP representative forum for comment and input.

Evidence in the form signed attendance registers and minutes will be kept for reporting and audit purposes.

Name: Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

To be followed up during next year's audit.

20. Targets not specific, measurable and time-bound

Audit finding

In terms of section 12 of the Municipal Systems Act Regulations, a municipality must, for each financial year set performance targets for each of the key performance indicators set by it.

A performance target set in terms of sub regulation (1) must:

- Be practical and realistic
- Measure the efficiency, effectiveness, quality and impact of the performance of the municipality, administrative component, structure, body or person for whom a target has been set;
- Be commensurate with available resources;
- Be commensurate with the municipality's capacity; and
- Be consistent with the municipality's development priorities and objectives set out in its integrated development plan.

The targets below are not specific and measurable:

KPA	Predetermined objective	Development priorities/objectives	Performance measure/indicator	Target
Municipal Transformation and Institutional Development	To provide effective and efficient Human Resources Management Services	Levels of black staff employed in management	Number of black staff	0
		Women employed by the municipality	Number of women	0
		Youth employed by the municipality	Number of youth	0
Financial Viability and Financial Management	To ensure that all revenue of the municipality is accounted for	Debt coverage ratio	Ratio	N/A
Community & Social Services		Cost coverage ratio	Ratio	N/A
Community & Social Services	To manage health Issues	HIV/AIDS Strategy	Number of individuals infected and affected	0
		HIV/Aids programmes	Number of programmes	0
	To Contribute Towards a Safe and Secure Environment	Community Safety Forum	Number of meetings	0
		Crime Prevention Strategy	% reduction in specified crime categories	0

Internal control deficiency

The municipal council did not exercise oversight over the preparation of the annual organisational scorecard to ensure that it contains targets which are specific, measurable and time-bound.

The internal audit unit and the performance audit committee did not perform a detailed review of the organisational scorecard to ensure that all targets are specific, measurable and time-bound

Recommendation

The municipal council must review the annual organisational scorecard to ensure that all targets are specific, measurable and time-bound.

The internal audit unit and the performance audit committee must perform a detailed review of the organisational scorecard to ensure that all targets are specific, measurable and time-bound.

Management response

Agree with finding. The municipality has reviewed its approach to prepare the 2012/13 SDBIP/Operational plans in the quest to comply with section 12 of the Municipal Systems Act in terms of the SMART principle. The targets are no longer numeric or in percentage format, but are more descriptive in nature and are set as quarterly milestones to curb the ambiguity brought by the previous approach. This benefit of this approach is that it introduces and instills focused implementation and monitoring as well as ease on compiling evidence for credible performance reporting. We are confident that the new approach addresses this finding.

Name: Mr Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

To be followed up during next year's audit.

21. Predetermined objectives of other institutions included in IDP

Audit finding

Section 26 (a) &(c) of the municipal systems act states that an integrated development plan must reflect:

(a) The council's development vision for the long term development of the municipality with special emphasis on the municipality's most critical development and internal transformation needs.

(c) The council's development priorities and objectives for its elected term including its local economic development aims and its internal transformation needs.

The following predetermined objectives, which are included in the municipality's IDP, are not the responsibility of the municipality:

KPA	Development priority/objective	Predetermined objective	Performance indicator	Target
Basic Service Delivery and Infrastructure Development	To provide access to Water, Sanitation, Electricity, Solid Waste, Roads	Households with access to basic water	Number of Households	DM
		New water connections	Number of new connections	DM
		Households with access to basic sanitation	Number of Households	DM

KPA	Development priority/objective	Predetermined objective	Performance indicator	Target
		New sanitation connections	Number of new connections	DM
		Households with access to electricity	Number of Households	Eskom
		New electrical connections	Number of new connections	Eskom
		Households with access to free basic water	Number of Households	DM
		Households with access to free basic sanitation	Number of Households	DM
		Households with access to free electricity	Number of Households	DM/Eskom

Internal control deficiency

The municipal council did not exercise oversight over the preparation of the integrated development plan to ensure that it only contains development priorities and objectives which are the municipality's mandate.

Recommendation

The municipal council must exercise oversight over the preparation of the integrated development plan to ensure that it only contains development priorities and objectives which are the municipality's mandate.

Management response

The municipality has consciously maintained that it is prudent to reflect KPIs and targets not within its competency, however, the manner in which this has been done previously invited audit queries such as this one. To improve on this, the municipality has further clearly specified its role in each of these KPIs and targets to be more facilitation through attendance of meetings, this is captured in the strategies of the municipality in the 2011/12 SDBIP/Operational plan. In terms of the 2011/12 financial year the municipality is measured more on the efforts it put to facilitate provision of these services than implementation. This is plain responsibility for the community which the municipality serves.

Name: Mr Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

To be followed up during next year's audit.

Internal control weaknesses

22. Inadequate controls over the supplier database

Audit Finding

According to section 62(1)(b) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

The information systems audit revealed that the following suppliers have duplicated information on the database, this may result in payments being processed to incorrect bank accounts:

No.	Supplier 1	Supplier 2	Supplier 3	uplicated information
1	GOBHO TRADING CC	GOBHO TRADING & CATERING	n/a	<i>duplicated address</i>
2	MASHIYA SUPPLY & TRADING	ZITHUMANE TRADING & PROJECTS	ALWAZI CATERING	<i>duplicated address</i>
3	EMANGOMENI TRADING ENTERPRISE	MLO'S TRADING ENTERPRISE	n/a	<i>duplicated address</i>
4	FLO'S MULTI SERVICES	MNGADI NGQAMBAYI CC	n/a	<i>duplicated address</i>
5	BASHEEN TRADING & PROJECT	HOPS SOUND & UIPEO MANAGEMENT	n/a	<i>duplicated address</i>
6	WHIRLAWAY TRADING 165 CC	FUZULA CONSTRUCTION	n/a	<i>duplicated address</i>
7	VENN NEMMETH & HART ATTORNEYS	VNH SOCIAL SERVICES AND DEVELO	n/a	<i>duplicated bank account</i>
8	AMAWEZA CATERERS CC	WHIRLAWAY TRADING 165 CC	n/a	<i>duplicated bank account</i>
9	NAMAHOMBA TRADING ENTERPRISE	NOMAHOMBA TRADING ENTERPRISE	n/a	<i>duplicated bank account</i>
10	AM. BUILDERS HARDWARE	A.M. BUILDER SUPPLIERS	n/a	<i>duplicated bank account</i>
11	ABAPHUMELELI TRADING 881 CC	SUPER QUICK	n/a	<i>duplicated bank account</i>
12	SOFTLINE VIP	VIP SOFTLINE	n/a	<i>duplicated bank account</i>
13	INDYEBO YOXOLO	MADZININI CATERING & PROJECTS	n/a	<i>duplicated bank account</i>
14	MULTI - FINANCE SOLUTIONS	MULTI FINANCE SOLUTIONS	n/a	<i>duplicated bank account</i>
15	ESKOM	ESKOM HOLDINGS LTD - (FBE)	n/a	<i>duplicated bank account</i>
16	HAPPY BOYS	N.P BAWANA	n/a	<i>duplicated bank account</i>
17	B.L MALITSHE	MALISHE CONSTRUCTION	n/a	<i>duplicated bank account</i>

No.	Supplier 1	Supplier 2	Supplier 3	duplicated information
18	PHANTS-PHEZULU CONSTRUCTORS	PHANTS-PHEZULU CONTRACTORS CC	n/a	<i>duplicated bank account</i>
19	GOBHO TRADING CC	GOBHO TRADING & CATERING	n/a	<i>duplicated bank account</i>
20	FAZISMAIL CONSTRUCTION	TINISSA TRADING 30CC	n/a	<i>duplicated bank account</i>
21	INSTITUTE FOR LOCAL GOVERNMENT	ILGM WOMEN'S CONFERENCE 2010	n/a	<i>duplicated Telephone no.</i>
22	SIYAZAMA CONSULTING	MHP GEOMATICS ADMINISTRATION	n/a	<i>duplicated Telephone no.</i>
23	MULTI - FINANCE SOLUTIONS	MULTI FINANCE SOLUTIONS	n/a	<i>duplicated Telephone no.</i>
24	AM. BUILDERS HARDWARE	A.M. BUILDER SUPPLIERS	n/a	<i>duplicated Telephone no.</i>
25	TINISSA TRADING 30CC	BABEDUN CC	n/a	<i>duplicated Telephone no.</i>
26	SODIZA TRADING	SODIZA TRADING	n/a	<i>duplicated Telephone no.</i>
27	SOMHLEKAZICC JV NOLWETHU TRADI	SOMHLEKAZI CONSTRUCTION	n/a	<i>duplicated Telephone no.</i>
28	NED CATERING AND CONSTRUCTION	SIYEMA SEWING PRIMARY CO-OP.	n/a	<i>duplicated Telephone no.</i>
29	NAMAHOMBA TRADING ENTERPRISE	NOMAHOMBA TRADING ENTERPRISE	n/a	<i>duplicated Telephone no.</i>
30	AMAWEZA CATERERS CC	WHIRLAWAY TRADING 165 CC	n/a	<i>duplicated Telephone no.</i>
31	N.E. TSHOBENI	NET CATERING & PROJECTS	n/a	<i>duplicated Telephone no.</i>
32	TINISSA TRADING 30CC	BABEDUN CC	n/a	<i>duplicated VAT no.</i>
33	MULTI - FINANCE SOLUTIONS	DBSA	n/a	<i>duplicated VAT no.</i>

Internal control deficiency

The SCM manager did not review the suppliers' database for accuracy.

Recommendation

The SCM manager must review the suppliers' database at least quarterly to ensure that the information contained therein is accurate.

Management response

Duplicate Supplier Info Address

There is capturing error as the companies belong to different people.

We will correct it in our database

Duplicate Supplier Info Bank Account

There's a capturing error as names of the suppliers are captured twice.



The ones that are not used are deactivated as there is transaction history in each supplier and cannot be deleted.

Payments are made to supplier's correct bank account, as they usually submit account numbers along with invoices, there has been no query from any supplier regarding payment paid to wrong supplier account.

Duplicate Supplier Info Telephone

There's a capturing error as names of the suppliers are captured twice.

The ones that are not used are deactivated as there is transaction history in each supplier and cannot be deleted.

Duplicate Supplier VAT number

The following suppliers are some of the suppliers that were involved in the Landscaping and Park Development and the project will be under Forensic Investigation:

Tinisaa Trading 30

Babedun

Suppliers in Service

The suppliers have declared at the beginning of the financial year.

Auditor's conclusion

Controls over the suppliers' database will be followed up during next year's audit.

23. Inadequate controls over master file amendments

Audit finding

In terms paragraph 62 (c) (i) of the MFMA the accounting office has the responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent of financial and risk management and internal control.

Paragraph 4.18 of the human resource policy (HR Policy) also states that the human resource department shall keep all records in an active file for ,at least 3 years from the date of appointing a candidate ,and ,therefore for five years in a retrievable archive.

The report of newly captured employees did not have a signature on the document to prove that it was reviewed.

Furthermore it was determined that the personnel officer performs incompatible functions as she has access to adding an employee on the system, amending/ maintaining details of the employee and removing them from the system.

Internal control deficiency

The HR manager did not review the master file amendments to ensure that they were valid and appropriately authorized.

The HR manager did not ensure that incompatible functions are segregated.

Recommendation

The HR manager must on a weekly/ monthly basis review master file amendments to ensure that they are valid.

The duties of adding, maintaining and removing staff from master files must be segregated.

Management response

We acknowledge the comment raised and further wish to report that in future we will ensure that reports generated are reviewed and signed by Corporate Services Manager, and that we will develop procedure manual on segregation of duties of functions.

Name: Z.Cezu

Position: Chief Financial Officer

Date:

Auditor's conclusion

To be followed up during next year's audit.

24. Leave reconciliation not reviewed**Audit finding**

Section 62(c)(i) of the Municipal Finance Management Act, (Act No. 56 of 2003)(MFMA) states that "The accounting officer of a municipality is responsible for managing the financial administration of municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

The monthly leave reconciliations prepared by the Personnel Officer were not reviewed by the HR Officer. Therefore errors could go undetected.

Internal control deficiency

The HR Officer is not monitoring the controls that have been implemented by reviewing leave reconciliations in order to contribute to a strong control environment and to ensure the accuracy and reliability of the reported financial information.

Recommendation

The HR Officer should duly review leave reconciliations, promptly investigate and follow up on anomalies identified in order to contribute to a strong control environment and to ensure the effectiveness of controls that have been implemented.

Management response

We acknowledge the comment raised and wish to report that we will fully implement the recommendation stated on the communication; we would like to also mention that there is currently no Head of Department in the corporate service department. The municipality is finalizing the processes of appointing Head of Department to make sure that going forward these audit findings are addressed.

Name: Z.Cezu

Position: Chief Financial Officer

Date:

Auditor's conclusion

To be followed up during next year's audit.

25. Policy on investment property depreciation

Audit finding

Paragraph 6.4 of the municipality's fixed asset policy states that "Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value. Investment assets shall be recorded in the balance sheet at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned".

However, the municipality's accounting policy in the financial statements is to depreciate its investment property in contradiction of the fixed asset policy.

Internal control deficiency

The CFO did not regularly review the fixed asset policy to ensure that it is consistent with the accounting policy of the municipality.

Recommendation

Management should review the fixed asset policy to ensure it is consistent with the accounting policy as well as the municipality's practice.

Management response

We have been depreciating our assets in accordance to our Accounting Policy on the Annual Financial Statements; we will rectify Paragraph 6.4 of our Fixed Asset Policy to be in line with our Accounting Policy.

We therefore agree with the finding

Name: Z Cezu

Position: Chief Financial Officer

Date: 12 October 2011

Auditor's conclusion

To be followed up during next year's audit.

26. Risk assessment

Audit finding

According to section 95(c) of the MFMA, the accounting officer of a municipal entity is responsible for managing the financial administration of the entity and must for this purpose take all reasonable steps to ensure that the entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control and internal audit complying with and operating in accordance with any prescribed norms and standards.

Section 7 of the risk management strategy states that Umzimkhulu Municipality's risk management strategy will be applied to all operational aspects of the entity and will consider external strategic risks arising from or related to our partners in projects, government departments, the public and other external stakeholders, as well as wholly internal risks.

The risk assessment report of the municipality concluded that the controls that have been designed and implemented by the municipality are adequate and effective to address any

impeding risks the municipality may face. This conclusion is contrary to the audit findings of the previous years as well as those of internal audit around the control environment, financial and performance reporting as well as compliance with the applicable laws and regulations. Furthermore, the assessment conducted by the municipality did not cover the following risks which may pose a threat to the municipality:

No.	Type of risk
1	Risks related to past failures to meet entity missions, goals, or objectives or failures to meet budget limitations.
2	Risks indicated by a history of irregular and fruitless and wasteful expenditure, or other statutory non-compliance.
3	Risks that might be associated with major changes in managerial responsibilities.
4	Risks resulting from its interactions with various other government entities and parties outside the government.
5	Risks posed by new legislation or regulations identified.
6	Risks arising from the changing needs or expectations of Parliament, entity officials, and the public.

Internal control deficiency

The risk assessment performed only focused on the operational aspects and did not identify the strategic risks that should have been part of the risk assessment process.

Recommendation

The risk assessment manager should ensure that the assessment process covers all risks that are attached to the activities of the organisation so that they can be addressed timely.

Management response

We acknowledge the finding and welcome the recommendation, further we will increase capacity of the unit and ensure that all risks associated with the municipality's activities are covered in the risk assessment.

Name: Z.Cezu

Position: Chief Financial Officer

Date:

Auditor's conclusion

To be followed up during next year's audit.

27. Anti-virus software

Audit finding

According to section 62(1)(c) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial risk management and internal control.

The municipality's computer network is infected with numerous computer viruses. As a result, business processes are slowed due to computer downtime or slow computers.

This is also impacting on the audit process as some viruses corrupted the auditors' computers resulting in the loss of audit work.

Internal control deficiency

Insufficient IT general controls including lack of management oversight over information technology issues.

Recommendation

The IT steering committee must address IT related issues in the committee meetings held. The computer network should, as a matter of urgency, be scanned and cleared of all viruses, also floppy and flash disks.

Management response

The IT unit utilizes Trend Micro Officescan 10.5 which is an active directory integrated anti-virus, spyware, malware, etc. The TMOS 10.5 has added Security compliance feature, this feature ensures that the OfficeScan client services, settings, scanning, and components comply with the security settings for overall endpoint protection. This feature allows the IT unit to generate reports on non-compliant clients and also determine and ensure compliance for endpoints in the network that are not managed by the OfficeScan servers.

The update schedule is programmed to run every Monday morning to update every client computer. With the recent outbreak of malicious software that infected the municipality's network, the IT unit has since liaised with the Trend micro support team to apply the relevant updates and patches to solve the experienced issues. The IT unit has since acquired additional software to assist in malware and Trojan removal. The unit has acquired Malwarebytes Anti-malware and Spybot: search and destroy removal tools. Other measures that have been since applied are enabling group policy features that prevent installation of any .exe files and applying any registry changes without administrative rights.

Actions taken

Fault logged, addressed and closed with Trend Micro support team to address update issues.

Fault ID: 60819

Deployment of additional removal tools

Spybot- Search and Destroy v1.6.2.

Malwarebytes v1.5.2

Trend micro hijack this

Name: Z Cezu

Position: Chief Financial Officer

Date: 12 October 2011

Auditor's conclusion

This matter will be followed up during next year's audit.

28. Control environment over financial reporting

Audit Finding

According to section 62(1)(b) the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Transactions and events should be accounted for in accordance with the GRAP standards in an accurate and timely manner.

Inspection of the general ledger revealed a high volume of correcting journal entries that were processed to correct the initial accounting treatment of transactions and events.

Furthermore, the approved journals procedure manual prescribes that journals with a value above R2million should be captured by the head of the budget section and approved by the CFO. However, we noted that all journals above the R2million limit in our sample were captured by the senior accountant and approved by the head of the budget section, contrary to the requirement. The following serve as examples:

No	JNL No.	Date	Amount R	Captured	Authorised
1	MC000003137	30-Jun-11	6,100,000.00	Musa Mkhize	Siyanda
2	MC000003137	30-Jun-11	2,308,000.00	Musa Mkhize	Siyanda
3	MC000003160	30-Jun-11	8,165,951.00	Siyanda	Musa Mkhize
4	MC000002977	31-Mar-11	93,902.00	Wiseman Thusi	Nolinda Dlamini
5	MC000002981	31-Mar-11	90,000.00	Wiseman Thusi	Nolinda Dlamini
6	MC000002991	7-Apr-11	79,999.00	Wiseman Thusi	Nolinda Dlamini
7	MC000002990	7-Apr-11	241,273.00	Wiseman Thusi	Nolinda Dlamini
8	MC000003184	30-Jun-11	19,803,542.00	Musa Mkhize	Siyanda
9	MC000003184	30-Jun-11	23,767,741.00	Musa Mkhize	Siyanda
10	MC000003184	30-Jun-11	8,597,386.31	Musa Mkhize	Siyanda
11	MC000003184	30-Jun-11	2,194,956.97	Musa Mkhize	Siyanda

Internal control deficiency

Supporting documents to journals were not thoroughly reviewed to ensure that transactions are appropriately allocated to the correct accounts prior to approval.

The system did not have built in parameters to ensure that journals were not captured and approved by unauthorised personnel.

Recommendation

Journals should only be approved by CFO and the head of the budget section upon inspection of the necessary supporting documents and ensuring that transactions are being posted to the correct accounts.

Built in controls must be effected on the system to ensure that only authorized officials can approve journals.

Management response

All our journals are processed in accordance to the procedure manuals. However the journals in excess of R2M were authorized by the Head of Budget to facilitate the year end. The CFO was not in the office for that week, there was no other option left to avoid delays on Annual Financial Statements, year end and payments to the suppliers.

Name: Z.Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

Controls over journals will be followed up during next year's audit.

29. Bank reconciliations not signed as evidence of review**Audit finding**

According to section 62(b) and (c)(i) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards and that the municipality has and maintains effective, efficient and transparent system of financial and risk management and internal control".

(i) The following monthly bank reconciliations were not signed as evidence of review by the CFO, this may result in possible irregularities in these bank accounts going undetected

Account No.	Months not signed	Balance at 30 June 2011 R
Call Account: 621 3217 2355	December 2010 to June 2011	5 813 073.78
Call account: 621 2923 7758	January and February 2011	Acc. closed

(ii) The bank reconciliation for the following account, was not provided for audit:

Account No.	Months not signed	Balance at 30 June 2011 R
Sports facility account: 62125140129	December 2010	80 120.23

Internal control deficiency

The CFO does not have a 'monthly finance duties' checklist that is used as a tool to ensure that all month-end procures have been carried out.

Recommendation

A month-end procedure checklist should be prepared and used by the CFO to ensure that all the processes that should be performed at month end are indeed carried out.



The CFO should monitor bank reconciliations to ensure that prompt investigations into reconciling items are carried out when needed.

Management response

All bank reconciliations are prepared on monthly basis and are reviewed and signed by the designated official. The unsigned copies were as a result of an oversight and going forward will make sure that all recons are signed accordingly

We agree with the finding

Name: Z Cezu Position: Chief Financial Officer Date: 12 October 2011

Auditor's conclusion

To be followed up during next year's audit.

30. Claim of input VAT from a non -VAT vendor

Audit Finding

Section 17 paragraph 1 of the Value Added Tax Act No. 89 of 1991, states that "Where goods or services are acquired/imported for consumption, use or supply in course of making taxable supplies and partly for another intended use, the extent to which any tax which has become payable in respect of the supply to the vendor or the importation by the vendor, as the case may be, of such goods or services is input tax."

Furthermore, Section 62 paragraph 1(d) of the Municipal Finance Management Act No.56 of 2003 state that "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must take reasonable steps to ensure that the authorised, irregular or fruitless and wasteful expenditure and other losses are prevented. VAT input was incorrectly claimed on the transaction below with a non-vendor and for which no VAT was charged:

Date	Supplier	GL.	Invoice	Total VAT claimed
2010/12/17	INGXOWA YABAFASI	79,321.10	90,426.06	11,104.95

Internal control deficiency

The head of expenditure did not adequately review the tax invoice of the supplier to ensure that it was a valid tax invoice.

Recommendation

The head of expenditure must always inspect invoices to verify that they are valid tax invoices that comply with the VAT Act.

Management response

At the time of receiving this particular invoice, we were of the view that the service provider was a vat vendor and process this payment as such.

It was when we were not given the vat registration number that we discovered that this was not the case, at the time of receiving this information the vat has already been claimed.

We therefore agree with the finding.

Name: Z Cezu

Position: Chief Financial Officer
Date: 20 October 2011

Auditor's conclusion

To be followed up during next year's audit.

31. No gift register in place

Audit Finding

Municipal SCM Regulation 46(2)(d) requires that, officials or other role players involved in the implementation of the SCM policy of the municipality must declare to the accounting officer details of any reward, gift, favour, hospitality or other benefit promised, offered or granted to that person or to any close family member, partner or associate of that person;
The municipality does not have a gift register wherein gifts received by municipal officials are recorded.

Internal control deficiency

The accounting officer did not implement controls over the recording and review of potential conflicts of interest.

Recommendation

The accounting officer must implement usage of a gifts register to ensure compliance with the requirements of Regulation 46(2)(d).
All declarations should be reviewed and approved to ensure that there are no conflicts of interest in the procurement process.

Management response

The municipality has a gift register and to date there has been no movement.
Going forward we will ensure that this document constitute a gift register even if there is no movement.

Name: Z. Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

A4 writing pad submitted does not constitute a gifts register. This will be followed up during next year's audit.

Performance management

32. Lack of performance management system and process for all levels of staff

Audit Finding

In order to embed, promote and motivate a culture of high performance, an organisation should develop and implement a performance management system that will measure, monitor, improve and reward good performance.



Only the municipal manager and section 57 staff members have entered into performance agreements with the municipality, the remainder of the staff does not have such contracts/agreements.

Internal control deficiency

The risk of poor and lack of performance by staff and the resultant negative impact on service delivery was not identified by the risk assessment process of the municipality.

Recommendation

Risk assessment should incorporate all business risks that have a potential impact on the municipality.

The municipality should design and implement a performance management process that will ensure that good performance is encouraged and rewarded, while poor performance is dealt with accordingly.

Management response

We acknowledge the comment raised and wish to report that for future we will review the current policy to include all levels of staff in order to be able to monitor, measure, and improve reward for good performance. The corporate service manager will be appointed soon to do implementation of performance management system that will include labour forum. Thorough research will be undertaken in order to apply uniformity with surrounding municipalities.

Name: Z. Cezu

Position: Chief Financial Officer

Date:

Auditor's conclusion

To be followed up during next year's audit.

Disclosure in the financial statements

33. Commitments incorrectly calculated

Audit finding

According to section 62(1) (b) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

The commitments relating to rollovers from the year 2010/11 were not calculated based on the contract value less actual expenditure incurred resulting in an understatement of R326 468.

Internal control deficiency

The chief financial officer did not exercised adequate monitoring controls to ensure that commitments are calculated accurately.

Recommendation

The chief financial officer must exercise adequate monitoring controls to ensure that commitments are calculated accurately and disclosed.

Management response

Commitments are not disclosed at the contracted values in the financial statements but at the projected value to complete. This is the amount that the municipality anticipates to further spend on the projects to complete them.

However, auditor comments will be taken into account during 11/12.

Auditor's conclusion

This matter will be included in the schedule of identified misstatements as an uncorrected error.

34. Difference between interest received in bank confirmation and AFS**Audit Finding**

According to section 62(1)(b) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

The following differences were noted between the interest received in the AFS and the bank confirmation.

Amount per register R	Amount per AFS R	Amount per bank confirmation R	Misstatement in AFS R
1,842,676.96	1,881,501.57	1,835,320.76	46,180.81

Internal control deficiency

Investment account reconciliations were not always prepared and reconciled to the bank statements.

Recommendation

Bank reconciliations should be prepared on a monthly basis, reviewed by the CFO and any differences noted should be promptly followed up.

Management response

The amount appearing on the Investment register is the correct amount and is made up of all investments interest excluding main account interest.

The amount showing on the annual financial statements is also the correct amount and is made up of all investments interest including main account interest.

The difference between Investment register and annual financial statements is a as a result of a main account interest.

It is our view that the bank confirmation is incorrect.

Name: Z Cezu

Position: Chief Financial Officer

Date: 04 November 2011

Auditor's conclusion

This misstatement will be included in the schedule of uncorrected misstatements.

ANNEXURE C: ADMINISTRATIVE MATTERS

No matters to report.